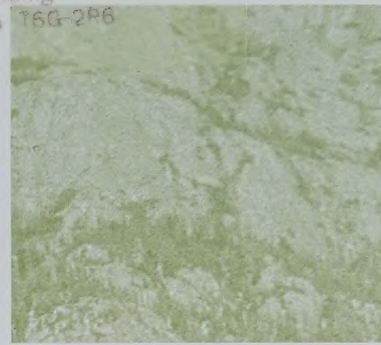


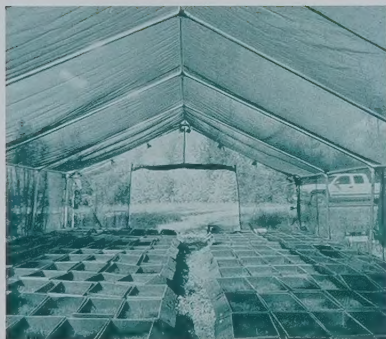


Reliable,
cost-effective
seedling
production

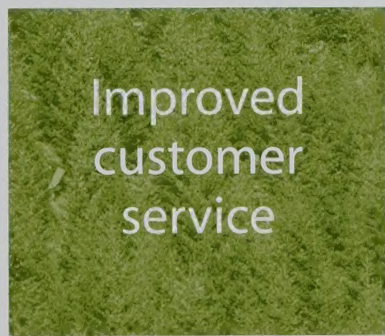


PRTA
Altogether a better approach

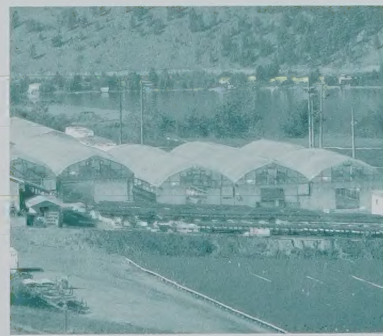
PRT Forest Regeneration
Income Fund



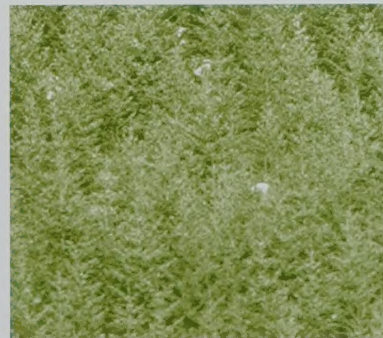
Market
leadership



Improved
customer
service



2003 Annual Report



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Company Profile

PRT is Canada's leading forest nursery company, with 13 nurseries located in Canada and the United States and a combined capacity to produce in excess of 130 million seedlings per year for our customers' reforestation requirements.

PRT was founded in 1988 following the privatization of several British Columbia government-owned forest nurseries. Since that time the Company's business has grown by entering new markets, and through a managed acquisition and expansion program. The Fund has continued this tradition following its initial public offering in 1997, and since then has significantly broadened its market reach and regional diversification across Canada and into the western United States.

Our facilities are generally located near the areas where our customers operate, providing them with the benefit of local services combined with the resources and experience available through a national network of operations. Through this structure we establish close working relationships with our customers, allowing us to better understand their needs.

The forest industry is being driven by trends toward consolidation and globalization, outsourcing, and a high focus by all stakeholders on responsible forest resource management. PRT is responding to these trends by offering our customers an integrated package of facilities and competitively priced products and services to assist in the efficient management of their plantations.

Our business is founded on three cornerstones: Reliability, Service and Value.

Our Mission statement embodies these operating philosophies:

- PRT offers nursery and related services to the forest sector.
- Our customers, employees, investors, and suppliers are our partners.
- To our customers, we commit to provide reliable service and to be innovative within a competitive price structure.
- We recognize that the success of our Company depends on our employees' achievement of success, in a safe working environment.

Reliability



PRT Locations

Value

Service

PRT Forest Regeneration Income Fund

2003 Annual Report

2003 Operating Highlights and Milestones

- Total revenues increase 2.0% to \$35 million
- Significant market share increases in Ontario and U.S. Pacific Northwest
- Stable monthly distributions maintained despite challenging operating environment
- Safety focus leads to 57% reduction in time lost due to injury
- Seedling sales volumes increase 7% to 138 million
- PRT Nevada nursery opens near Las Vegas
- U.S. growth strategy continues with acquisition of Portland nursery
- *Right from the Start*TM reliability initiative fully implemented



Financial Highlights

(in millions of dollars, except per Unit amounts)

	Year ended December 31, 2003	Year ended December 31, 2002	Year ended December 31, 2001
Revenue	\$ 35.0	\$ 34.3	\$ 35.2
Operating Earnings^{1, 4}	6.8	7.6	8.9
Net Earnings²	4.8	4.9	4.4
Per Trust Unit	0.67	0.73	0.78
Distributable Cash⁴	6.2	6.8	5.7
Per Trust Unit ⁴	0.85	1.01	1.01
Cash Distributions per Trust Unit³	0.88	0.99	1.01
Cash Generated from Operations	7.3	7.5	8.5
(before net change in non-cash working capital items)			
Net Additions to Capital Assets, including acquisitions	3.0	1.7	2.4
Total Assets	68.1	68.7	69.9
Unitholders' Equity	57.6	59.9	46.8
Per Trust Unit	7.93	8.26	8.35
Price Range per Unit on the Toronto Stock Exchange:			
High	10.30	11.26	11.45
Low	8.60	9.51	8.60
Closing Price at December 31	9.00	10.01	11.10

¹ Defined as earnings before interest, depreciation and amortization, income taxes, gains or losses on asset sales, and other non-operating income or loss items.

² After giving effect to change in accounting policy for goodwill amortization in 2002.

³ Including dividend declared in subsequent fiscal year on account of current year's operations.

⁴ Operating Earnings and Distributable Cash are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Report to Unitholders



John Kitchen
President & CEO
Pacific Regeneration
Technologies Inc.

We knew that 2003 would be a challenging year for PRT. The operating environment, however, proved to be more difficult than expected. Consequently, our financial performance fell short of our objectives, the result primarily of higher operating costs. In response, we have implemented cost-cutting and reorganization programs to improve operating efficiencies in 2004 and beyond.

Still, there were accomplishments to be pleased with in 2003. PRT's total revenues and seedling sales were up. And we continued to execute our strategy to expand into the United States, where growth opportunities are brighter than in Canada.

PRT remains North America's largest supplier of container-grown forest seedlings. We are well positioned geographically and have the resources to resume profitable, long-term growth as forest industry fundamentals improve.

Revenues increase in difficult market conditions

The largest external factor affecting PRT's performance is the health of the forest products industry. In 2003, Canadian companies were plagued by a lingering softwood lumber trade dispute with the United States; higher energy costs; and a rapidly rising Canadian dollar, which drove costs up significantly. Many of PRT's customers as a result undertook system-wide cost-reduction programs.

Although reforestation operations are a stable segment of the industry relative to other operations, they are not immune to economic pressures. To achieve cost reductions some customers were under pressure to reduce silviculture expenditures, which in some cases resulted in the purchase of smaller, less-expensive seedlings, reduced planting densities or postponed replanting.

Despite the challenging environment, total revenue increased 2.0% from 2002 to \$35.0 million and overall market share remained steady at approximately 30%.

PRT's expenses in 2003, however, were higher than expected, due mainly to the rising cost of energy to heat greenhouses, currency exchange losses on a stronger Canadian dollar and increased marketing costs. Consequently, our net income declined 2.1% from 2002 to \$4.8 million.

Our distributable cash flow, regrettably, also was lower by 9.2%, to \$6.2 million, or 85 cents per Unit, on an increased number of Units outstanding.

Reorganization to streamline operations

PRT's financial performance has prompted management to initiate a reorganization plan, among other efforts, to improve PRT's cost structure and to streamline PRT's operations. The reorganization, which affects sales, nursery operations and administration, will have immediate and long-term benefits.

We have established centralized administration, a dedicated sales force and focused nursery management on seedling production. Our new structure will enable us to further improve our competitiveness and increase reliability.

Natural gas prices increased substantially in 2003, and that again had a significant impact on our bottom line. We believe that high energy prices are here to stay and, therefore, have implemented natural gas price protection programs to better manage and reduce our energy costs.

We are also focusing on ways to reduce our energy consumption. During 2003, our Cochrane, Ontario nursery—a high-cost energy user—was consolidated with two of our

other regional facilities. We will further reduce PRT's energy consumption through continuation of energy conservation strategies.

Growth strategy shaped by changing markets

The nature of our markets has changed over the past few years. Canadian forest products companies have been under considerable economic pressure from a number of sources. In this environment, seedling demand is reasonably steady, but growth is flat. We have adapted PRT's business strategy to these realities to achieve our strategic goal to grow our business.

We believe that PRT's best opportunity for growth is to continue to expand in the United States. PRT's purchase of a nursery site near Portland, Oregon in early 2004 improves its ability to build U.S. market share.

The site offers numerous benefits: reduced energy consumption and maintenance costs, elimination of cross-border shipping delays and an alternative for U.S. customers who prefer to buy locally. The new location also enables us to better manage Canadian-U.S. dollar currency fluctuations. Production is already underway, led by an experienced management team who will complete the conversion of this former horticulture nursery early in 2004. We expect to achieve cash flow accretion from this operation in 2005.

Forest product companies' continued consolidation has resulted in integrated buying decisions and a trend to outsourcing non-core activities. As an industry leader, PRT is well positioned to address these trends with a professional team, broad geographic diversification and the ability to grow any type of seedling required by its customers.

Best practices ensure quality and performance

In 2003, PRT's leadership development program, "Altogether Growing Better," continued to build on our commitment to maintain best practices. The goal of our company-wide, internal training program is to improve the sharing of knowledge, leadership skills and innovation throughout the organization. This program is offered to staff at all levels and graduated its first group of 20 employees in 2003.

During 2003, we completed implementation of our *Right from the Start*[™] initiative, a quality assurance program designed to provide continued improvement in the criteria our customers seek most: reliability, service and value. The program sets clear targets and seeks to increase the speed with which we improve our value proposition to customers.

Our reliability and crop quality were excellent overall in 2003, thanks to attention to detail provided by our growing-teams and nursery workers. Our internal measures of customer satisfaction, the key metric in the program, indicate that nine of our 13 nurseries achieved satisfaction ratings of 95% or better. We will pursue further improvement in 2004 by continuing to build on the program's success.

Looking ahead

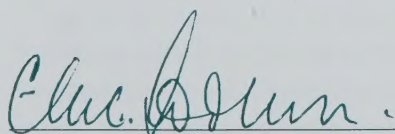
Some segments of the industry, such as pulp and paper, are expected to prosper as global economies recover in 2004. However, we expect conditions in the forest industry to remain largely unchanged in the year ahead — difficult, but with selective growth opportunities.

The steps we have taken to improve our operating efficiencies and to develop new markets leave us well positioned to take advantage of those opportunities and to resume our profitable growth. The underlying nature of our business is strong and stable, and there remains a significant backlog in reforestation that must be addressed.

PRT is one of the best forest seedling growers in the world and we have the financial and human resources to continue to be a dominant force in the marketplace.

We would like to sincerely thank our employees for their efforts during 2003. The external pressures were faced by our people, requiring many difficult decisions in recent months to ensure that our business is sustainable and prosperous. We will continue to work together to achieve our goal—provide reliable, innovative service to our customers within a competitive price structure that meets or exceeds their expectations.

On behalf of the Trustees and Management



Colin A.C. Dobell
Trustee and Chairman



John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.

Operations Report



Changing market yields new opportunities and challenges

During 2003, Canadian forest products companies continued to be plagued by the softwood lumber dispute with the United States. That dispute added substantial costs to their operations in the form of tariffs and countervailing duties. A stronger Canadian dollar and weaker markets for some core lumber products also created difficulties.

Nevertheless, the forest seedling market remained reasonably stable in 2003. That enabled PRT to continue to expand seedling sales 7% to 138 million. Our seedling sales volume increased in two key markets, Ontario and the U.S. Pacific Northwest. However, volumes declined in our three other key markets—British Columbia, Alberta and Saskatchewan—as the forest industry there responded to more difficult operating environments.

Increasing our expansion in the United States

Markets in the U.S. Pacific Northwest represent an excellent, long-term growth opportunity for PRT. Forest products companies there are increasingly aware of the benefits of containerized seedlings over bareroot seedlings: higher survival rates, faster growth rates and easier handling.

As the largest producer of containerized seedlings in North America, PRT is well positioned to capitalize on this trend with a staged expansion program. There are significant barriers to entry in these markets, but by demonstrating the quality of PRT's seedlings and delivering reliably over several years, PRT gained a significant foothold in the U.S. Pacific Northwest.

One of our successful expansion strategies involves two steps. First, we sell into the new market based on production at a regional PRT nursery to develop local customer relationships. Second, after establishing the necessary trust with new customers, we build or acquire a nursery to increase our local presence. This has enabled us to increase market share effectively. U.S. customers accounted for approximately 10% of PRT's seedling sales revenue in 2003, up from about 8% in 2002.

PRT's early 2004 purchase of a former horticulture nursery near Portland, Oregon, is a key part of our U.S. expansion strategy. This facility is well suited to our business, and we have seedlings in production at the site for the 2004 contract year.

The Portland nursery is situated on approximately 28 acres of land and includes over 350,000 square feet of greenhouse space, plus cold storage and processing buildings. It will allow PRT to better serve the U.S. customers that it previously supplied with seedlings from PRT's Reid Collins nursery near Aldergrove, British Columbia.

Elsewhere in the United States, in 2003, PRT finalized its purchase of a nursery site in the Pahrump Valley near Las Vegas, Nevada, following two years of successful growing trials in southern Nevada. This open-compound nursery enjoys a long growing season and has sufficient space to meet anticipated demand for low-cost seedlings from customers in Canada and the United States.

Energy management, automation programs focus on cost-management

Energy, primarily natural gas, is a significant operating cost for PRT's greenhouses. In early 2003, natural gas prices hit record highs, adding significantly to our costs. To improve our energy cost predictability, we have since established price protection plans for about 50% of our annual energy consumption.

In addition, we are continuing our efforts to reduce companywide energy consumption. This includes the consolidation of operations, as was the case with our Cochrane, Ontario facility, which used propane, a higher-cost fuel than natural gas. Cochrane's operations were combined with those of PRT's nearby nurseries in Kirkland Lake and Dryden to improve PRT's economies of scale in Ontario.

Following our Oregon nursery acquisition in early 2004, we elected to close our Reid Collins nursery. Reid Collins' original primary market was BC's coastal forest industry. However, this market has been in decline for several years and we can serve it well from our location at Campbell River on Vancouver Island. Lately, the majority of Reid Collins' seedling production was sold to U.S. customers, who now are more economically served from our Oregon nursery. Reid Collins' remaining BC customers will be supplied from PRT's other nurseries in the province.

We continue to explore new ways and means of making PRT's nurseries more efficient. During 2003, a pilot program successfully tested the viability of increasing greenhouse planting density by using smaller containers to start seedlings. The seedlings are subsequently transplanted to larger containers using automated equipment. The process means less artificial heat and less maintenance. We have purchased the automated equipment for PRT Harrop, and are studying the feasibility of using this process at our other nurseries.

Reorganization to improve efficiency and customer relations

In early 2004, we initiated an organizational change to maximize our internal efficiency and to enhance customer service and support. The change will ensure that we operate as an integrated company and that our services are even better aligned with customer needs and expectations.

In the past, PRT nurseries operated as semi-autonomous business Units, which resulted in some inconsistencies in best practices for marketing, customer service and

sales. Our recent reorganization addresses these inconsistencies by separating marketing and production management functions that were previously performed by nursery managers.

This reorganization is establishing a dedicated customer support team to heighten our focus on customer service. Under the new structure, nurseries will become production centres and tree growers, focused primarily on cost-effective seedling production. We will also be centralizing the administrative support functions conducted at PRT's nursery sites. PRT's reorganization will be completed in spring 2004.



Safety focus leads to improved performance

We place a high emphasis on safety and are particularly proud of PRT's 2003 safety record. PRT Frontier, our tree planting division, had no lost-time accidents, an excellent achievement given the rugged environment in which employees work. The long-term safety record at PRT nurseries is excellent and we continue to make good progress on ever safer work practices. In 2003, we showed significant improvement, evidenced by a 57% drop in lost-time accidents. However, our Reid Collins nursery struggled to improve its safety record, which was another consideration in the decision to close this nursery.

Strategic partnerships provide long-term growth opportunities

PRT maintains an important strategic alliance with Vancouver-based CellFor Inc. That firm is a leading independent supplier in an emerging market for high-technology seeds to the global forest industry.

Recently, CellFor completed an extensive development phase to further refine its technology and the advanced science it applies to produce high-performing conifer seeds more quickly and in greater quantities. CellFor's testing and selection programs have delivered improvements in forest yield two to three times greater than what is possible with traditional methods.

Increasing market acceptance and interest in improved seeds and seedlings have created a global market for CellFor. The company supplies customers on a commercial scale in North America, South America and Australasia.

PRT grows seedlings under contract to CellFor. It is a small but fast-growing part of our business. In 2003, we grew 400,000 seedlings and in 2004 we expect to grow approximately 3,000,000.

In 2003, PRT made a strategic investment in JRP Consulting, a leading supplier of seedling information management software. JRP offers an excellent value proposition for forest products companies under pressure to reduce costs. Their Plant Wizard product helps to simplify the complicated tasks of seedling coordination and planting administration. PRT now integrates

Maintaining market leadership through

Improving productivity and reducing costs takes a team effort. At PRT, we employ two programs that reward employees for making PRT a better company. "Tricks of the Trade" pays cash bonuses to employees for communicating effective solutions to other PRT locations. "It Works for Us" pays a cash award to the nursery that quickly adopts or adapts a cost-effective innovation from another PRT operation or elsewhere. The submitting employee chooses how to spend the award in a way that benefits all nursery employees.

Here are a few examples of how our employees have used innovation and creativity to make PRT a better company.



A simpler way to move seedling boxes

When boxed seedlings are loaded on pallets, the boxes are typically shrink-wrapped with poly to hold them together for transport to cold storage. This process is labour-intensive and costly, as the shrink wrap cannot be reused. PRT Dryden's Mike Wood developed an alternative that uses rope and bungee cords to secure the top rows of boxes on the pallets. The tie-down system requires only one person, and the rope and cords can be used repeatedly. The result is improved productivity and the elimination of shrink-wrap.



Innovative poly cutter saves time

Nursery greenhouses typically require multiple layers of poly to maintain optimum growing conditions during the winter months. When warmer weather arrives, the poly layers are cut, removed and stored for reuse. Peter Gnos of PRT Campbell River developed a simple but effective tool to cut the poly faster. Employing rope and a specially adapted blade, Peter's poly cutter gives employees the ability to cut off one poly layer at a time, considerably reducing the time it takes to remove greenhouse roofs.



Reduce. Reuse. Recycle.

Until they are ready for shipment, forest seedlings are grown in blocks of Styrofoam containing numerous cavities. We reuse containers whenever possible, but over the years customers' specifications have changed, leaving us with large quantities of unusable blocks. To solve the problem, Marc Poirier and his staff at PRT Campbell River worked with our supplier, Beaver Plastics Ltd., to utilize a recycling method that grinds and processes the old blocks to produce a granular material that insulates seeds when they are sown. By adopting this approach, we save money on conventional seed covering materials, and eliminate a landfill problem.

seedling contract administration with Plant Wizard, streamlining information flow for our customers using JRP's system.

BC wildfires lead to increased timber harvesting

The nearly 2,500 wildfires that raged in British Columbia during summer 2003 destroyed approximately 2,600 square kilometres of land, bush and residential areas. In response, the provincial government has increased allowable annual cuts to salvage fire-damaged timber in

some areas. The government has also increased harvesting in BC's central interior region to slow the spread of the mountain pine beetle, which has reached epidemic levels.

Forestry operations related to these natural disasters are currently focused on timber harvesting. It is expected, however, that those operations will soon result in significant long-term demand for seedlings as reforestation begins.

innovation, ingenuity and adaptation



New process improves productivity and safety

In many of PRT's nurseries, the traditional way to package seedlings is much like an assembly line: sorters sort and bundle seedlings, several additional people wrap the bundles and others yet box them. Last year, Mike Thelitz and his crew at PRT Red Rock adopted the method used by some Ontario nurseries where sorters complete the entire process. Not only did this new process give employees an "ownership" in each box of seedlings, it improved safety because the tasks are more varied and lead to fewer repetitive strain injuries.



Rollup system saves time and money

To make the task of recovering greenhouse poly faster and easier, PRT Prince Albert employees Claude Desjardins and Michael Voros fabricated an innovative tool entirely from spare parts at the nursery. Their gas-powered poly roller is mounted on a flatbed truck and what used to take two people 20 minutes can now be done by one person in 10 minutes. In addition, the poly can be reused more times because of the improved handling.



Deer today, gone tomorrow

It seems that our nursery customers aren't the only ones who appreciate our nursery seedlings. Deer also love to browse them after they are planted. So PRT Campbell River staff followed up on a suggestion by a Vancouver Island customer who proposed adding sulphur (a safe and effective plant nutrient) to seedling crops as a deer repellent. Several sources and concentrations of sulphur were tested over three years before the magic formula was discovered. Deer frequenting the customer's plantations have developed a dislike for the taste of sulphur and changed their eating habits. Our customer is delighted, as are other PRT customers who are experimenting with the technique.

About the Fund

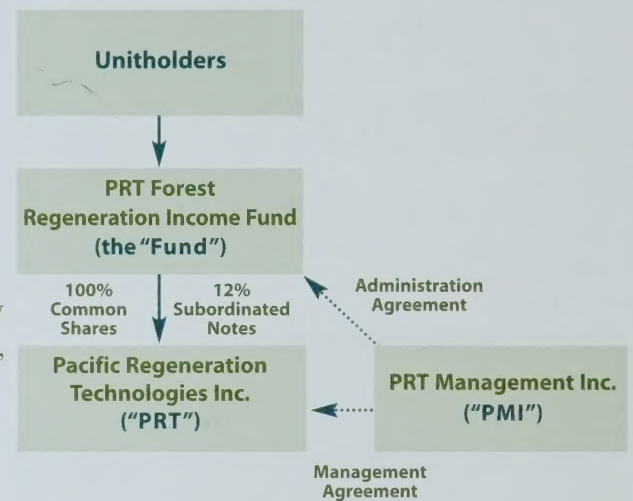
The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose Trust, which owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. ("PRT"). Units of the Fund are traded on the Toronto Stock Exchange (PRT.UN) and are eligible for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing Plans (DPSP), and Registered Education Saving Plans (RESP).

PRT is Canada's largest forest nursery company, producing over 130 million seedlings per year. Operations are conducted from 13 nurseries in Canada and the United States.

Management

Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administration services, as well as the services of the President and Chief Executive Officer, the Vice President Business Development, and the Vice President Finance and Administration and CFO. For these services, PMI is entitled to receive a fee based upon reimbursement of its internal costs without allowance for profit. In addition, as an incentive to increase returns to Unitholders, PMI may receive incentive fees which are earned only when cash distributions to Unitholders exceed certain defined levels, starting at \$1.10 per Unit. The voting shares of PMI are owned by approximately 100 shareholders who are current directors, officers and employees of PMI and PRT.

The structure is illustrated on the right.



Governance

The Board of Trustees of the Fund consists of three members, all of whom are independent of, and unrelated to management and PMI. The Board of PRT consists of five members, three of whom are independent of management and appointed by the Fund Trustees. Mr. Dobell, the Chairman of the Board of Trustees, also serves as the Chairman of the Board of PRT. The Trustees are appointed annually at the Annual General Meeting of Unitholders. More information on the Fund's governance practices is available in the Information Circular of the Fund, prepared in connection with its May 17, 2004 Annual General Meeting of Unitholders.

Distributions

The Fund's Policy is to distribute net interest received from PRT on a monthly basis, and dividends received on account of the prior year's operations on an annual basis. Prior to 2003, distributions of interest receipts were made on a quarterly basis.

Distribution History¹



PRT's distributions are not based on a depleting asset base. In determining the amount to distribute to Unitholders, PRT's Board seeks to strike a balance between funding expansion and cash distributions to Unitholders, with a view to maintaining a strong financial position. Since inception, the Fund has distributed over \$38 million to Unitholders, while maintaining and significantly expanding its productive capacity and geographic base of operations.

(1) effective 2003 paying equal monthly distributions of \$0.073/Unit

Management's Discussion and Analysis

We are pleased to present the 2003 annual report for the PRT Forest Regeneration Income Fund. This section presents management's view of the operating results, cash flows, financial position and business of the Fund, and its wholly owned operating subsidiary, Pacific Regeneration Technologies Inc. ("PRT").

This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations for future orders, the outlook for future energy prices, plans and opportunities for capital spending, and other statements contained in this discussion that are not historical fact. Risks and uncertainties include, but are not limited to future commodity prices, exchange rate risks, agricultural risks, the outlook for the forest industry, and other risks identified from time to time in the Fund's annual report, annual information return, prospectus, and other filing documents. These documents are available in electronic form at www.sedar.com, or by contacting the Fund directly. Readers are cautioned not to place undue reliance on forward-looking statements.

Operating Results

Revenues for the year increased by 2% over 2002 on higher contract volumes, primarily as a result of additional contracts in the U.S. Pacific Northwest and Ontario.

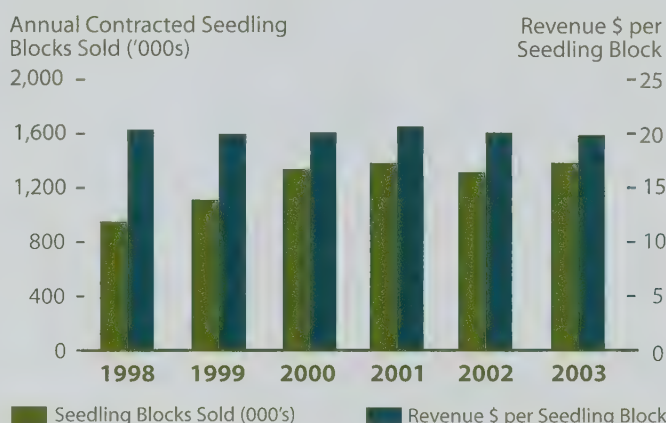
Average realized pricing was slightly lower in 2003, attributable to highly competitive market conditions and customer pressure to reduce costs. Service revenues were comparable, with the exception of cold storage which was lower than 2002 as a result of a larger volume of spring delivery trees contracted in 2001, for storage and delivery in 2002.

Costs of production rose as a result of higher heating and labour costs, as well as higher production volumes. As a percentage of revenue, production costs increased to 60.2% from 59.6% in the prior year, primarily due to heating costs.

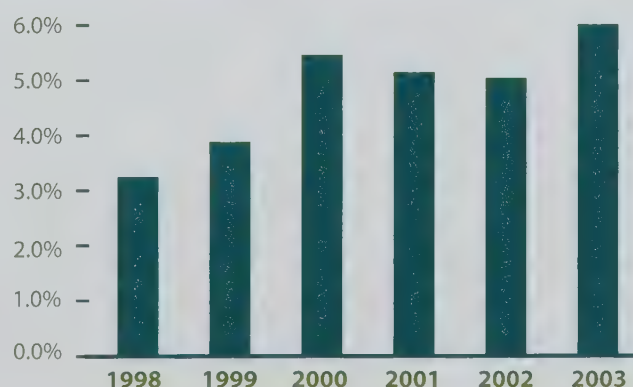
Greenhouse heating costs were higher in 2003 than in 2002, due to higher commodity prices for natural gas during the winter months. While gas consumption was reduced by 12% in 2003, this was insufficient to fully offset the commodity price effect, resulting in a net increase in costs of 11%. PRT did not hedge any of its gas purchases in 2003, which led to increased price exposure. For 2004, approximately 50% of the Company's expected gas usage has been contracted forward at fixed prices, which are approximately 10% lower than the average price in 2003.

Direct labour costs increased due to higher premiums for health and welfare benefit plans, as well as scheduled increases under labour agreements.

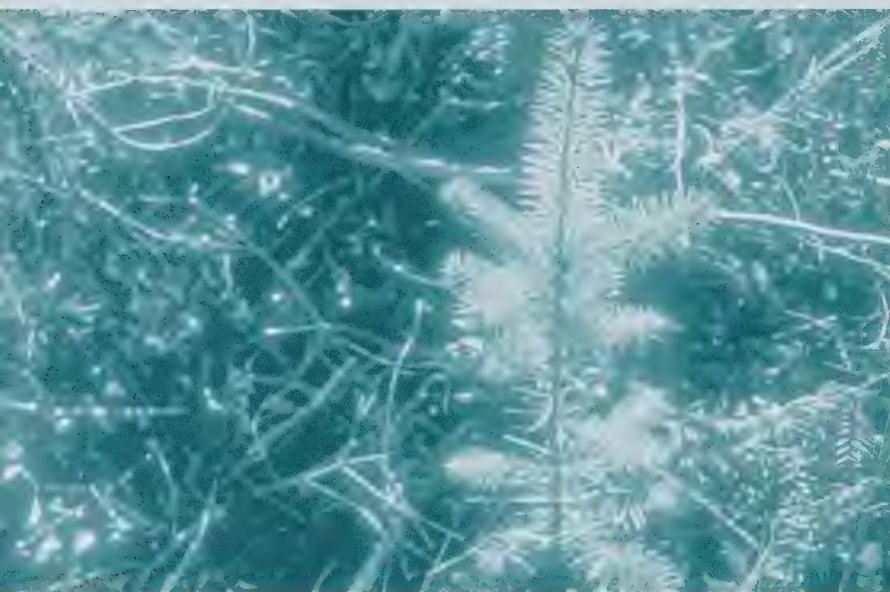
Block Space and Pricing



Heating Costs as a Percentage of Revenue



Administration costs were impacted by higher insurance premiums for property and liability coverage, due to a tightening insurance market, as well as increased expenditures for market development initiatives. In 2003, PRT Management Inc. (PMI) added management support in sales and marketing, and a number of new business development projects were initiated during the year. This impacted both administration costs and the management fee payable to PMI. PMI is owned by current and former employees, officers and directors of PRT, and as such is a related party. Fees payable to PMI are determined based on reimbursement of PMI's actual costs without allowance for profit, and the terms of the agreement are disclosed in *note 12* to the Fund's financial statements.



With increasing market share in the United States, the Company has foreign exchange exposure on its US dollar seedling supply contracts. Historically, the Company has not hedged this exposure. In 2003 the Canadian dollar strengthened significantly against the US dollar, resulting in exchange losses totalling \$456,000 from price changes and conversion of US dollar receipts. This compares to a small exchange gain in 2002. In 2003, most US customers were serviced from Canadian nursery sites. PRT has recently purchased a US based nursery near Portland Oregon, and financed the acquisition with US dollar term debt to provide some offsetting exchange rate exposure against the US dollar revenue stream.

During 2002 the Fund completed a \$14,960,000 Unit offering, the proceeds of which were used to retire term debt and increase working capital. This refinancing reduced interest expense in 2003, and resulted in a one-time loss on the retirement of interest rate swaps in 2002.

Pre-tax earnings in 2003 were lower as a result of higher production costs, particularly greenhouse heating costs, higher administration costs including insurance and marketing expenditures, and foreign exchange losses on US seedling contracts. These impacts were partially offset by lower interest costs and the impact of the one-time loss on interest rates swaps in the prior year.

The Fund recorded an \$880,000 tax recovery for 2003, which was an increase of \$355,000 over the recovery recorded in the prior year. This increase was the result of lower earnings in PRT, combined with the tax shield effect of higher interest payments to the Fund due to the additional subordinated debentures that were issued by PRT as part of the Fund's 2002 equity offering.

With the benefit of the tax recovery, consolidated net earnings were \$102,000 or 2% lower than 2002. However, earnings per Unit declined by 8% to \$0.67 per Unit due to the greater number of Units outstanding in 2003.

Distributable cash flow is a term which does not have standardized meaning under Canadian generally accepted accounting principles. The Fund determines distributable cash flow as cash flow from operating activities before changes in non-cash working capital items adjusted for seedling container depreciation, sustaining capital expenditures, debt repayment, gains or losses on asset sales, and such other reserves as the board of PRT and the Trustees of the Fund consider appropriate. Certain expense items which are incurred as part of earnings enhancing capital projects may be excluded from the determination of distributable cash flow if the overall project meets the Company's internal investment hurdle rates and is funded by term debt or equity financing. In 2003, site consolidation charges related to the dismantling and relocation of the Cochrane, Ontario nursery site were excluded on this basis, and in 2002, the loss on retirement of interest rates swaps was excluded as it was financed from the proceeds of the Unit offering. The Fund considers distributable cash flow as defined to be a useful measure of the cash flow available for making Unitholder distributions, as it is determined after providing for maintenance and replacement of PRT's underlying asset base, as well as financing of expansionary capital spending.

Distributable cash flow for the year was \$623,000 lower than in 2002 as a consequence of the lower operating earnings noted earlier. On a per Unit basis, distributable cash flow for the year was \$0.85 per Unit, down from the \$1.01 earned in 2002. In addition to operating

factors, this decline was also a result of the greater number of Units outstanding in 2003.

Liquidity and Cash Flow

Cash flows from operating activities declined by \$1,882,000 in the year, which was the result of lower operating earnings and a \$1,677,000 year-over-year change in non-cash working capital items. Non-cash working capital changes were mainly the result of later than normal progress billings under some seedling contracts. In 2003, cold winter weather delayed harvest activities at some sites, which is when many progress payments are scheduled, contributing to this factor.

The increase in unbilled revenue led to a temporary increase in the Fund's operating line at year end. This will be paid down as progress billings are made under 2003 seedling contracts. The Fund has up to \$7,700,000 available under its operating facility, subject to certain margining requirements. At year-end \$6,686,753 had been drawn under the facility.

Distributions paid to Unitholders increased by \$1,802,000 in 2003 as a result of a greater number of Units outstanding in 2003, and the one-time effect of a change in the distribution policy to monthly distributions that was effective January 1, 2003. Distributions declared during 2003 out of current year cash flow totalled \$0.88 per Unit, slightly in excess of the \$0.85 generated by operations. The shortfall was funded from working capital.

During the year the Fund purchased property plant and equipment totalling \$2,990,000, an increase of \$1,208,000 over the prior year. This was mainly attributable to construction of the Nevada nursery facility and consolidation of its Cochrane, Ontario nursery into two other Ontario nursery sites. Capital assets in 2003 were financed from operating cash flow and \$1,775,000 of new term debt. In the prior year the Fund also invested \$742,000 for a non-controlling interest in a

software solutions provider for silviculture operations in the forest industry. This investment was financed from working capital raised in the 2002 unit offering. Only earnings enhancing capital expenditures are financed from the Company's term debt facilities. PRT has up to \$20,478,000 available under these facilities, of which \$18,715,000 was undrawn at year end.

Subsequent to year end, PRT purchased a nursery site near Portland, Oregon for US\$2,300,000. An additional US\$458,000 is expected to be required to equip the facility for the production of forest seedlings. The project has been financed through the use of PRT's term debt facilities and US\$300,000 in vendor financing. In conjunction with this move, PRT announced the closure of its Aldergrove, BC nursery site and relocation of customer orders to the new Portland location. Once the relocation is complete, the Aldergrove site will be leased or sold. Management expects the market value of the site will exceed its current book value.

In 2004, the Company expects to make additional expenditures to complete its site consolidation initiatives in BC and Ontario totalling approximately \$800,000. These are detailed in *note 4* to the Fund's financial statements.

Financial Position

At December 31, 2003, working capital was \$3,561,000 compared to \$4,737,000 at the end of 2002, a decline of \$1,176,000. This was primarily attributable to the reduction in operating earnings in 2003. Nevertheless, the Fund's working capital position remains adequate relative to its operating needs.

Property, plant and equipment was \$28,535,000 at December 31, 2003, down slightly from the prior year balance. Capital expenditures made in the year were approximately \$368,000 lower than depreciation charges for the period.

Payments Due by Period

Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long Term Debt	\$ 1,763,146	\$ 122,815	\$ 395,730	\$ 1,220,730	\$ 23,871
Operating Leases	490,392	156,442	42,164	42,164	249,622
Total Contractual Obligations	\$ 2,253,538	\$ 279,257	\$ 437,894	\$ 1,262,894	\$ 273,493

Selected Annual Information

Figures are presented in \$000's, except number of Units and per Trust Unit amounts

	1998	1999	2000	2001	2002	2003
Operating Statistics						
Revenues ¹	22,097	26,714	33,270	35,165	34,277	34,955
Revenue Growth Rate (Year over Year)	8.6%	20.9%	24.5%	5.7%	-2.5%	2.0%
Gross Margin percentage	48%	46%	41%	42%	40.4%	39.8%
Operating Income ²	6,207	7,090	8,060	8,905	7,628	6,802
% of revenue	28.1%	26.5%	24.2%	25.3%	22.3%	19.5%
Net Earnings ¹	4,040	4,508	4,122	4,372	4,939	4,836
Basic and Fully Diluted Earnings per Unit	\$ 0.72	\$ 0.80	\$ 0.74	\$ 0.78	\$ 0.73	\$ 0.67
Distributable Cash flow ²	5,725	5,895	5,383	5,684	6,800	6,176
Distributable Cash Flow per Unit	\$ 1.02	\$ 1.05	\$ 0.96	\$ 1.01	\$ 1.01	\$ 0.85
Distributions Declared per Unit ¹	\$ 1.02	\$ 0.88	\$ 1.05	\$ 0.96	\$ 1.01	\$ 0.99
Return on Average Equity	7.9%	9.0%	8.4%	9.2%	9.3%	8.2%
Distributable Cash Flow Yield (on closing Unit price)	11.3%	12.0%	11.0%	9.1%	10.1%	9.4%
Capex Spending:						
Sustaining Capital (excludes reserves)	228	276	540	419	462	263
% of revenue	1.0%	1.0%	1.6%	1.2%	1.3%	0.8%
Earnings enhancing	4,950	5,627	3,913	1,036	661	2,019
Subtotal	5,178	5,903	4,453	1,455	1,123	2,282
Seedling containers	749	993	954	1,090	660	708
Total	5,927	6,896	5,407	2,545	1,783	2,990
Financial Position						
Working Capital (excluding current portion of term debt)	2,529	1,867	2,628	2,943	4,737	3,684
Interest Bearing Debt Position						
Operating line	2,882	4,231	7,096	6,993	4,615	6,687
Term (including current portion)	4,968	8,070	11,838	11,502	—	1,763
Total	7,850	12,301	18,934	18,495	4,615	8,450
Total Long-term Liabilities ¹	11,860	17,614	23,193	23,137	8,793	10,451
Term Debt to Equity	0.098	0.161	0.247	0.246	0.000	0.031
Total Assets	61,062	66,402	70,999	69,934	68,709	68,054
Units Outstanding at End of Period	5,655,714	5,655,714	5,655,714	5,655,714	7,255,714	7,255,714
Unit Price Range						
High	\$ 10.25	\$ 9.90	\$ 10.20	\$ 11.45	\$ 11.26	\$ 10.30
Low	\$ 8.00	\$ 8.25	\$ 7.00	\$ 8.50	\$ 9.51	\$ 8.60
Close – December 31	\$ 9.00	\$ 8.75	\$ 8.75	\$ 11.10	\$ 10.01	\$ 9.00
Volume	834,339	874,126	877,194	1,276,590	2,086,315	1,017,827

Note 1. This summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles. In 2002 the Fund adopted CICA Handbook section 3062 with regard to goodwill and intangibles. This change in policy was applied on a prospective basis.

Note 2. Distributable Cash Flow and Operating Income are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Between 2001 and 2003, PRT's operations have been adversely affected by difficult conditions in the forest industry, which has impacted seedling pricing and volumes. In addition, historically high prices for energy resulted in increased costs of production over this period. In 2003, the Fund incurred foreign exchange losses on its US dollar seedling contracts, which impacted earnings for the period by \$456,000. In 2002, the fund retired its term debt from the proceeds of a \$15 million equity offering, and in the process incurred a loss on cancellation of interest rate swaps of \$472,000. Over the past three years, there have been no adjustments to earnings for discontinued operations or extraordinary items.

Unitholders' Equity at December 31, 2003 was \$57,604,000, a decrease of \$2,313,000 since the end of 2002. This decline was due to distributions declared exceeding net earnings during the period. Distributable cash flow from the Fund is typically higher than reported earnings, due to depreciation charges exceeding required expenditures for asset maintenance and replacement.

The Fund has one class of voting equity securities, of which 7,255,714 Units are outstanding. Up to 560,572 Units have been reserved for issuance under its Unit Option Plan, however to date no options have been granted. There are no other securities currently outstanding which may be convertible into Units of the Fund.

Financial Instruments

PRT uses interest rate swap contracts to fix interest rates on its variable rate long-term debt. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

Swap terms are matched to the maturity of the underlying loan obligation. However, the Company could incur a gain or loss on the contract in the event a swap was cancelled before the scheduled maturity date. PRT periodically obtains mark-to-market valuations on its swap contracts. At December 31, 2003 the fair value of the Company's outstanding interest rate swap approximated its carrying amount based on reference to current market interest rates.

Changes in Accounting Policies

The Fund will adopt the new CICA accounting standards on hedging relationships and asset retirement obligations commencing with its first quarter report in 2004. The effect, if any, of adopting these new standards will be determined at that time.

Critical Accounting Estimates

PRT accounts for revenue under seedling contracts based on percentage completion contract accounting. Percentage completion is determined as the ratio of direct growing expenses incurred to total expected direct growing costs over the crop cycle. While most crops are completed by the end of the Fund's fiscal year, during interim periods management must make estimates of total expected direct growing costs for the fiscal year. In addition, total annual revenue under growing contracts is estimated based on expected annual crop yields. To increase the accuracy of these

estimates, PRT has internal policies and procedures which require periodic revisions to cost forecasts and crop yield forecasts whenever a material variance is known or expected. The potential for errors in estimation is typically limited to interim periods, as final crop yields and costs are generally known by the end of the fiscal year.

Risks and Risk Management

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows much of its crop in climate-controlled greenhouses in diverse locations, and trained growing personnel carefully monitor the growing conditions in the nurseries. In addition, the Company maintains insurance against certain types of physical crop damage.

Certain of PRT's costs are subject to variations caused by movements in commodity prices. Some costs, such as energy, have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's cost structure. The Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset commodity price volatility. To reduce this risk, PRT consults with energy advisors, and purchases energy from a variety of regulated and non-regulated sources, which is expected to partially offset the effect of short-term changes in commodity prices. The Company may also enter into forward purchase contracts for future energy requirements where management considers it advantageous to do so.



Summary of Quarterly Results

Figures below are presented in \$000's, except for per Trust Unit figures.

	2002					2003				
	1 st Q	2 nd Q	3 rd Q	4 th Q	January to December 31	1 st Q	2 nd Q	3 rd Q	4 th Q	January to December 31
Operating Results										
Revenues	7,354	12,429	6,260	8,234	34,277	7,422	13,351	5,530	8,652	34,955
Net earnings	843	1,697	868	1,530	4,938	1,118	2,137	174	1,407	4,836
Per Unit ¹	\$0.15	\$0.25	\$0.12	\$0.21	\$0.73	\$0.15	\$0.30	\$0.03	\$0.19	\$0.67
Distributable cash	1,068	2,770	809	2,152	6,799	1,381	3,022	(67)	1,840	6,176
Per Unit	\$0.19	\$0.41	\$0.11	\$0.30	\$1.01	\$0.19	\$0.42	\$(0.01)	\$0.25	\$0.85
Distributions declared	1,977	1,590	1,605	1,604	6,776	2,373	1,589	1,589	1,598	7,149
Per Unit	\$0.35	\$0.22	\$0.22	\$0.22	\$1.01	\$0.33	\$0.22	\$0.22	\$0.22	\$0.99

Note 1. Basic and Fully Diluted

The above summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles, with the exception of distributable cash amounts. Distributable cash flow is a term which does not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

The Fund's operating results are seasonal, driven by the varying levels of activity required throughout the seedling growing cycle, as well as the seasonal nature of silviculture services. Revenues and cash flow are affected by PRT's seedling crop cycles and by the seasonality of PRT's customers' planting season. PRT recognizes revenue under contracts on a percentage completion basis with costs incurred as a base. Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered. As such, fluctuations between quarters occur depending upon the activities in the quarter. Comparatively high cost activities, such as harvesting, typically occur in the second and fourth quarters, and accordingly these quarters normally reflect a higher proportion of annual revenues.

Operating results in the third quarter of 2003 declined over the same period of 2002 due to revenue timing shifts to the second quarter, foreign exchange losses, and costs associated with the establishment and start up of PRT's new Nevada nursery. Operating results in the fourth quarter of 2003 were also impacted by foreign exchange losses, relative to the fourth quarter of 2002.

Distributions declared in the first quarter period include a "top-up" distribution payable from distributable cash flow of the prior year. In 2002 this amount was \$0.14 per Unit, while in 2003 the top up distribution was \$0.11 per Unit.

The Fund enters into seedling growing contracts in both Canadian and US dollars. Exchange rates have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's cost structure. As stated above, the Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset exchange rate volatility. To reduce this risk in future periods, PRT is relocating production of certain US contracts to US based facilities, and is financing the purchase of those facilities with US dollar denominated debt, in order to provide some offsetting exchange rate exposure against the US dollar revenue stream.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not materially dependent on any one customer, regional markets

may be impacted by changes in global markets and government regulations and by more consolidated buying decisions by larger customers. In recent years, management has taken steps to diversify PRT's operations outside of British Columbia, such that at the present time, more than half of the Company's revenues are derived from outside the province.

The Company intends to use term debt financing to fund earnings-enhancing capital expenditures in the current low interest rate environment. Interest rate risk is managed by fixing term debt rates for varying terms using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of the cost of total borrowings. Accordingly, management does not hedge interest rate risk on this debt.

The production of forest seedlings has limited impact on the environment. Seedlings are grown in climate controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Outlook

The operating environment in the forest seedling supply industry continues to be very challenging. The unresolved trade issues in the forest industry, which have impacted seedling demand and prices, have been further compounded by a high cost energy environment and by the effect of a stronger Canadian dollar. For 2004, the seedling market outlook is weaker, and PRT expects contract volumes could be 5–10% lower than in 2003.

These issues have pressured PRT's operating margins, and have created the need to develop strategies to manage risks and reduce costs over the long term.

We have undertaken a number of significant strategies in recent months to reduce our cost structure and expand our business. These include the Cochrane nursery consolidation, the Oregon nursery purchase and Reid Collins closure, a comprehensive internal reorganization, and improved production efficiencies. We also continue to examine accretive acquisition opportunities. These initiatives are consistent with the strategies in our strategic plan, and that plan indicates growth in distributable cash will be achieved once we get through the implementation phase. While positive for the long-term, these initiatives will require time and investment to implement, and as such earnings and distributable cash flow performance will continue to be pressured in 2004.

To manage heating cost risks in 2004, PRT has entered into a natural gas forward buying strategy. We are also gradually decreasing our use of heat energy through a variety of energy management strategies. As we go forward we will reduce our foreign currency exposure by producing seedlings at our recently acquired Oregon nursery facility, while at the same time enhancing our opportunity to grow in that market.

The ongoing problems in the forest industry and weaker market outlook for 2004 suggest another challenging year ahead. However, at this time, based on the above strategies, it is our view that cash flow and working capital reserves are adequate to maintain monthly distributions at the current level.



As always, we are continually looking to the long term for opportunities to streamline and grow our operations, and to leverage our knowledge base and infrastructure, while maintaining a market leading position in our industry.

Financial Statements

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund (the "Fund") and all the information in this annual report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

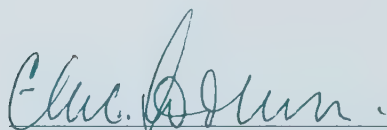
The consolidated financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the consolidated financial statements of the Fund.

PRT Management maintains, on behalf of the Fund, systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded. The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements of the Fund. The Trustees carry out this responsibility through the Fund's Audit Committee.

The Audit Committee is comprised of the three Trustees, all of whom are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

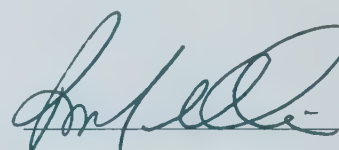
On behalf of the Trustees and Management



Colin A.C. Dobell
Trustee and Chairman



John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.



Robert A. Miller
Vice President Finance &
Administration & CFO
Pacific Regeneration Technologies Inc.

March 4, 2004

Auditors' Report

To the Unitholders of PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of **PRT Forest Regeneration Income Fund** (the "Fund") as at December 31, 2003 and 2002 and the consolidated statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada
February 11, 2004

PRT Forest Regeneration Income Fund

2003 Annual Report

Consolidated Balance Sheets

As at December 31, 2003 and 2002

	2003	2002
Assets		
Current assets		
Cash	\$ 539,147	\$ 1,604,915
Accounts receivable	8,299,240	8,576,005
Inventories	1,050,869	1,083,698
Prepaid expenses	89,788	101,338
Unbilled revenue	2,338,986	1,177,978
	12,318,030	12,543,934
Investment (note 3)	713,917	742,000
Property, plant and equipment (note 5)	28,534,858	28,936,007
Goodwill	26,487,158	26,487,158
	\$ 68,053,963	\$ 68,709,099
Liabilities		
Current liabilities		
Operating line (note 6)	\$ 6,686,753	\$ 4,614,823
Accounts payable and accrued liabilities	1,408,530	1,587,541
Distribution payable to Unitholders (note 9)	539,078	1,604,848
Current portion of long-term debt (note 7)	122,815	—
	8,757,176	7,807,212
Long-term debt (note 7)	1,640,331	—
Future income taxes (note 10)	53,080	985,359
	10,450,587	8,792,571
Unitholders' Equity		
Capital contributions (note 8)	68,014,543	68,014,543
Cumulative net earnings	28,234,729	23,398,404
Cumulative distributions declared (note 9)	(38,645,896)	(31,496,419)
	57,603,376	59,916,528
	\$ 68,053,963	\$ 68,709,099

Subsequent events (note 18)

Approved by the Trustees



Colin A.C. Dobell
Trustee



Allan D. Laird
Trustee

See accompanying notes to these consolidated financial statements

Consolidated Statements of Earnings and Cumulative Earnings

For the years ended December 31, 2003 and 2002

	2003	2002
Revenue	\$ 34,954,832	\$ 34,277,244
Expenses		
Costs of production	21,025,445	20,418,874
Nursery administration	5,267,939	4,996,568
Foreign exchange loss (gain)	455,750	(24,210)
Fund administration	189,246	159,869
Management fee (note 12(b))	1,214,389	1,098,344
	28,152,769	26,649,445
Earnings before the following	6,802,063	7,627,799
Interest expense	(298,643)	(457,592)
Depreciation	(2,473,633)	(2,302,694)
Site consolidation charges (note 4)	(34,697)	–
Equity in loss of investee (note 3)	(28,083)	–
(Loss) gain on sale of property, plant and equipment	(10,202)	18,004
Loss on retirement of interest rate swaps (note 7)	–	(472,200)
Earnings before income taxes	3,956,805	4,413,317
Recovery of income taxes (note 10)	879,520	525,411
Net earnings for the year	4,836,325	4,938,728
Cumulative earnings – Beginning of year	23,398,404	18,459,676
Cumulative earnings – End of year	\$ 28,234,729	\$ 23,398,404
Basic and diluted earnings per Trust Unit	\$ 0.67	\$ 0.73
Weighted average number of Trust Units outstanding	\$ 7,255,714	\$ 6,740,372

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Net earnings for the year	\$ 4,836,325	\$ 4,938,728
Items not affecting cash		
Depreciation (excluding seedling containers)	2,473,633	2,302,694
Seedling container depreciation	883,949	876,661
Recovery of future income taxes	(932,279)	(594,662)
Loss (gain) on sale of property, plant and equipment	10,202	(18,004)
Equity in loss of investee	28,083	–
	7,299,913	7,505,417
Net change in non-cash working capital items	(1,018,875)	657,746
	6,281,038	8,163,163
Cash flows from financing activities		
Distributions paid to Unitholders	(8,215,247)	(6,412,693)
Proceeds of long-term debt	1,775,100	–
Repayment of long-term debt	(11,954)	(11,501,588)
Increase (decrease) in operating line	2,071,930	(2,377,943)
Issuance of Trust Units	–	14,960,000
	(4,380,171)	(5,332,224)
Cash flows from investing activities		
Purchase of property, plant and equipment		
Seedling containers	(708,159)	(659,994)
Earnings-enhancing	(2,019,010)	(661,398)
Sustaining	(262,719)	(461,431)
Proceeds on sale of property, plant and equipment	23,253	54,503
Deposit on investment	–	(742,000)
	(2,966,635)	(2,470,320)
(Decrease) increase in cash	(1,065,768)	360,619
Cash – Beginning of year	1,604,915	1,244,296
Cash – End of year	\$ 539,147	\$ 1,604,915
Supplemental information		
Interest paid	\$ 322,148	\$ 325,912
Income taxes paid	\$ 52,759	\$ 69,251

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1 Organization and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at nurseries in British Columbia, Ontario, Alberta, Saskatchewan and Nevada.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary Pacific Regeneration Technologies Inc. ("PRT") and PRT's wholly owned subsidiary companies. Intergroup transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage of completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost.

Future income taxes

The Fund accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Investments

The Fund accounts for investments in which it exercises significant influence using the equity method. Under the equity method, the initial investment is recorded at cost and the Fund's pro rata share of the investments' earnings or losses is included in its results of operations.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

Buildings	40 years
Greenhouses	25 years
Equipment	3–15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and cumulative earnings.

Goodwill

Goodwill is recorded at cost and is not amortized. The Fund tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

2 Significant accounting policies – continued

Foreign exchange

Foreign currency transactions are translated into Canadian dollars at the exchange rates in effect at the dates of the transactions. Account balances denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Exchange gains and losses arising from the translation or settlement of foreign currency denominated monetary items are included in the determination of net earnings.

The accounts of the Fund's United States operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Exchange gains and losses arising from the translation of the Fund's foreign operations are included in the determination of net earnings.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

3 Investment

On January 2, 2003, PRT acquired a non-controlling interest in a privately held company for cash consideration of \$742,000. The consideration had been put on deposit in December 2002. The investment is accounted for by the equity method. The excess of the purchase price of the investment over the underlying book value at the date of acquisition, totalling \$625,000, has been allocated to intangible assets, which are being amortized over their estimated useful lives. The company is a supplier of software solutions for seedling supply management by forest companies, and is located in Courtenay, B.C.

4 Restructuring activities

The Fund has announced the following site consolidation initiatives:

- the closure of its Cochrane, Ontario nursery with capacity being relocated to existing nurseries at Kirkland Lake and Dryden, Ontario, and
- the closure of its Reid Collins nursery in Aldergrove, B.C., with the majority of the site's capacity being transferred to a newly acquired nursery site near Portland, Oregon (*note 18*). Canadian business being serviced by the Reid Collins nursery will be reallocated to other B.C. based facilities.

By consolidating these facilities, the Fund expects to achieve reduced operating costs, through improved economies of scale. The consolidation is expected to be completed in 2004.

The Fund anticipates incurring expenditures related to the restructuring, including certain one-time costs, as follows:

	Total expected expenditures	Amounts incurred in 2003
Property, plant and equipment		
Site preparation and greenhouse construction at Kirkland Lake and Dryden	\$ 975,000	\$ 523,341
Site consolidation charges		
Dismantling and relocation of equipment and facilities	390,000	34,697
Depreciation		
Write-off of deferred costs related to Cochrane site	80,500	80,500
Total	\$ 1,445,500	\$ 638,538

The above table excludes capital costs associated with the purchase and development of the Fund's new nursery near Portland, Oregon (*note 18*) but includes the cost of relocating equipment and other assets to the site.

Costs to dismantle and relocate equipment are recognized when the activities take place and the costs are incurred. These costs are included in the statements of earnings and cumulative earnings as site consolidation charges.

Management is considering the disposal options available for the Cochrane and Reid Collins nursery sites, which have a combined net book value of \$2,648,000.

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

5 Property, plant and equipment

				2003
	Cost	Accumulated depreciation		Net
Land	\$ 3,099,769	\$ –	\$	3,099,769
Buildings	4,779,149	686,224		4,092,925
Greenhouses	18,241,195	4,795,132		13,446,063
Equipment	12,930,609	6,692,379		6,238,230
Seedling containers	6,064,169	4,406,298		1,657,871
	\$ 45,114,891	\$ 16,580,033	\$	28,534,858

				2002
	Cost	Accumulated depreciation		Net
Land	\$ 2,631,643	\$ –	\$	2,631,643
Buildings	4,526,125	566,481		3,959,644
Greenhouses	17,553,757	3,876,300		13,677,457
Equipment	12,281,811	5,448,212		6,833,599
Seedling containers	5,356,015	3,522,351		1,833,664
	\$ 42,349,351	\$ 13,413,344	\$	28,936,007

The following summarizes the amounts charged to earnings in respect of depreciation:

	2003	2002
Seedling container depreciation included in costs of production	\$ 883,949	\$ 876,661
Other depreciation	2,473,633	2,302,694
Total depreciation	\$ 3,357,582	\$ 3,179,355

6 Operating line

PRT has a demand revolving operating facility of up to \$7.7 million or US\$4.75 million to fund the company's working capital and general corporate requirements, and to provide temporary financing for earnings-enhancing capital expenditures prior to conversion to term debt (*note 7*). The amount of operating line available is dependent upon meeting certain margin requirements. As at December 31, 2003, the full amount of the facility was available and the company had drawn \$3,686,753 (2002 – \$4,614,823) of cash advances from the operating facility bearing interest at prime plus 1/4% (2002 – prime plus 1/4%) and \$3,000,000 (2002 – \$nil) of short-term bankers' acceptances bearing interest at 4.23%, including a stamping fee, which mature on January 30, 2004. A first fixed and floating charge over PRT's assets is provided as security.

7 Long-term debt

PRT has a term debt facility available in the amount of \$20 million (2002 – \$20 million), or the equivalent in U.S. dollars, to fund earnings-enhancing capital expenditures and acquisitions. The loans are amortized on a straight-line basis over 10 years, but mature 5 years from the date of drawing. A wholly owned subsidiary of PRT has a term debt facility available in the amount of US\$365,000 which is amortized on a straightline basis over 10 years.

As at December 31, the following amounts have been drawn under the facilities:

	2003	2002
Term loan, bearing interest at 4.27%, maturing on September 30, 2008	\$ 1,500,000	\$ –
Term loan, bearing interest at the lender's U.S. prime plus 1.25%, maturing on December 31, 2013 (US\$200,875)	263,146	–
	1,763,146	–
Less: Current portion	122,815	–
	1,640,331	–
Interest paid on long-term debt	\$ 17,570	\$ 259,197

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

7 Long-term debt – continued

In 2002, PRT repaid its outstanding term debt and incurred a loss of \$472,200 on the retirement of interest rate swaps.

PRT is subject to interest rate risk on floating rate payments under its long-term debt. PRT manages this exposure by entering into interest rate swap agreements. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

As at December 31, 2003, PRT had entered into an interest rate swap agreement for 5 years to fix the interest rate on its Canadian dollar term loan. The rate noted in the above table represents the fixed interest rate, including stamping fees, resulting from the swap agreement.

A first fixed and floating charge over PRT's assets is provided as security for the facilities.

The principal repayments required on the long-term debt are as follows:

Year ending December 31	
2004	\$ 122,815
2005	197,865
2006	197,865
2007	197,865
2008	1,022,865
Thereafter	23,871
	\$ 1,763,146

8 Unitholders' equity

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable, and entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Trust Unit held. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of \$75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of PRT common shares and Notes.

Units outstanding as at December 31 are:

	Number of Units	2003		Number of Units	2002	
		Amount			Amount	
Balance – Beginning of year	7,255,714	\$ 68,014,543		5,605,714	\$ 53,054,543	
Units issued	–	–		1,650,000	14,960,000	
Balance – End of year	7,255,714	\$ 68,014,543		7,255,714	\$ 68,014,543	

On April 23, 2002, the Fund completed the issue of 1,500,000 Trust Units of the Fund at \$10 per Trust Unit for net proceeds of \$13,550,000, after deducting expenses of the issue in the amount of \$1,450,000. The underwriters were given an over-allotment option of 150,000 Units which was fully exercised on May 15, 2002. Net proceeds of the over-allotment after deducting underwriter's fees of \$90,000 were \$1,410,000. The Fund used the proceeds to retire existing indebtedness previously incurred to finance acquisitions and expansions (*note 7*) and to provide working capital for general corporate purposes.

During 2001, the Fund established a Unit option plan whereby the Trustees of the Fund may from time to time grant options to purchase Units to eligible officers, employees and consultants of the Fund or any subsidiary and to directors of any subsidiary. The aggregate number of Units reserved under the plan is 560,572. The maximum term of any option is 10 years. The exercise price of an option cannot be less than the average of the Unit price at the close of business on the five trading days preceding the grant date.

As at December 31, 2003, no options had been granted (2002 – nil).

During the year ended December 31, 2003, PRT established an Employee Stock Ownership Plan ("ESOP") whereby eligible directors and employees of PRT, PRT Management Inc. ("PRT Management"), or any subsidiary of PRT can purchase market traded Units of the Fund through payroll deduction. Under the terms of the ESOP, eligible employees can contribute between 1% and 10% of their earnings to the plan and PRT or PRT Management will contribute 15% toward the purchase price of Units and pay all transaction fees on Unit purchases made under the plan.

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

9 Distributions to Unitholders

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as cash flow from operating activities before net change in non-cash working capital items, adjusted for seedling container depreciation, sustaining capital expenditures, repayment of long-term debt, and any other reserves or allowances considered appropriate by the Board of Directors of PRT and the Trustees of the Fund. Distributable cash is not a defined term under Canadian generally accepted accounting principles and therefore may not be comparable to similar measures provided by other reporting entities.

Distributable cash was as follows:

	2003	2002
Cash flow from operating activities before net change in non-cash working capital items	\$ 7,299,913	\$ 7,505,417
Adjustments		
Seedling container depreciation	(883,949)	(876,661)
Sustaining capital expenditures	(262,719)	(461,431)
Repayment of long-term debt	(11,954)	–
Site consolidation charges	34,697	–
Loss on retirement of interest rate swaps	–	472,200
Reserve for sustaining capital expenditures	–	160,000
Distributable cash	\$ 6,175,988	\$ 6,799,525

During 2002 and prior years, distributions to Unitholders were made quarterly. Commencing January 2003, distributions to Unitholders were made monthly. The Fund's policy is to make a cash distribution each month (2002 – each quarter) equal to interest charged to PRT by the Fund on the \$54.7 million (2002 – \$41.2 million) of intergroup 12% (2002 – 12%) unsecured subordinated notes (the "Notes") plus interest charged on any other intergroup indebtedness less estimated Fund administration costs. In addition to the monthly (2002 – quarterly) distributions, an additional distribution (the "Thirteenth Distribution") (2002 – the "Fifth Distribution") may be made on or before March 31 of the following year based on the actual distributable cash for the year, less reserves, if any, considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

During the year ended December 31, 2003, the Fund declared distributions to the Unitholders of \$7,149,477 or \$0.9854 per Unit (2002 – \$6,776,716 or \$1.01 per Unit) based on the number of Units outstanding on the record date. The amounts and record dates of these distributions were:

	2003		2002	
	Amount	Per Unit	Amount	Per Unit
February 28 – Fifth Distribution on account of prior year	\$ 784,062	\$ 0.108	\$ 761,256	\$ 0.14
January 31	529,667	0.073		
February 28	529,667	0.073		
March 30	529,667	0.073	1,215,268	0.21
April 30	529,667	0.073		
May 31	529,667	0.073		
June 30	529,667	0.073	1,590,496	0.22
July 31	529,667	0.073		
August 29	529,667	0.073		
September 30	529,667	0.073	1,604,848	0.22
October 31	529,667	0.073		
November 28	529,667	0.073		
December 31	539,078	0.074	1,604,848	0.22
	\$ 7,149,477	\$ 0.985	\$ 6,776,716	\$ 1.01

The distribution of \$539,078 with a record date of December 31, 2003 was accrued at year-end and paid in January 2004.

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

9 Distributions to Unitholders – continued

The costs of issuing Trust Units are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund incurred issue costs in 1997 of \$3,002,597 and incurred additional issue costs in 2002 of \$1,540,000. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared have been allocated as follows for income tax purposes:

	2003	2002
Taxable – interest	\$ 6,057,454	\$ 5,293,219
Taxable – dividends	784,063	859,614
Non-taxable	307,960	623,883
Total distribution	\$ 7,149,477	\$ 6,776,716
Per Unit	\$ 0.985	\$ 1.01

As at December 31, 2003, \$924,046 (2002 – \$1,232,006) of issue costs were available for future designation as non-taxable distributions.

10 Income taxes

The Fund is not taxable on any income that is distributed to Unitholders. PRT is taxable on its income at Canadian statutory tax rates.

a) The consolidated income tax recovery (provision) comprises the following:

	2003	2002
Current income taxes	\$ (52,759)	\$ (69,251)
Future income taxes	932,279	594,662
	\$ 879,520	\$ 525,411

b) The recovery of income taxes shown in the consolidated statements of earnings and Unitholders' equity differs from the amounts obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2003	2002
Income tax expense computed at statutory rates	\$ (1,488,575)	\$ (1,647,568)
Interest on the Notes and other inter-group indebtedness	2,469,950	2,283,620
Reduction in income tax rate	41,469	45,433
Large corporations tax	(52,759)	(69,251)
Other	(90,565)	(86,823)
Recovery of income taxes	\$ 879,520	\$ 525,411

c) The net future income tax liability comprises the following differences between book value and tax value at current tax rates:

	2003	2002
Future income tax assets (liabilities)		
Property, plant and equipment	\$ 6,031	\$ (1,015,878)
Deductible expenses for tax purposes	(157,880)	(195,955)
Tax loss carry-forwards	98,769	226,474
Future income tax liability – net	\$ (53,080)	\$ (985,359)

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

10 Income taxes – continued

- d) Expiry of non-capital loss carry-forwards in subsidiary companies is as follows:

Year ending December 31	
2006	\$ 134,000
2007	–
2008	23,000
2009	106,000
2010	–
	\$ 263,000

11 Segmented information – geographic areas

The Fund has one operating segment, being the production of forest seedlings.

The following tables provide geographic revenue, property, plant and equipment, and goodwill information:

2003			
	Revenue	Property, plant and equipment	Goodwill
Canada	\$ 31,555,988	\$ 27,716,670	\$ 26,487,158
United States	3,398,844	818,188	–
	\$ 34,954,832	\$ 28,534,858	\$ 26,487,158

2002			
	Revenue	Property, plant and equipment	Goodwill
Canada	\$ 32,234,003	\$ 28,936,007	\$ 26,487,158
United States	2,043,241	–	–
	\$ 34,277,244	\$ 28,936,007	\$ 26,487,158

12 Administration and Management Agreements**a) Administration Agreement**

The Fund has entered into an Administration Agreement with PRT Management, a company owned by certain employees and former owners of PRT. According to the agreement, PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

b) Management Agreement

PRT has entered into a Management Agreement with PRT Management. According to the agreement, PRT Management will provide management and administration services and strategic advice to PRT and provide individuals to serve in executive positions. The initial term of the agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. In 2003, PRT Management earned a fee of \$1,214,389 (2002 – \$1,068,000) plus reimbursement of \$nil (2002 – \$30,344) for certain out-of-pocket expenses. The fee is periodically set at the level necessary to achieve reimbursement, without profit, of PRT Management's internal costs and expenses of providing these services, including salaries and wages. In addition, as an incentive to PRT Management to enhance cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

No incentive fees were earned by PRT Management during either year.

Notes to Consolidated Financial Statements – continued

December 31, 2003 and 2002

13 Commitments

PRT has operating lease commitments for certain nursery growing facilities. Future minimum payments are as follows:

Year ending December 31	
2004	\$ 156,442
2005	21,082
2006	21,082
2007	21,082
2008	21,082
Thereafter	249,622
	\$ 490,392

14 Related party balances and transactions

PRT provides seedling cultivation services at market rates to a company partially owned by certain shareholders of PRT Management. During the year ended December 31, 2003, PRT charged \$233,643 (2002 – \$266,376) for providing these services. As at December 31, 2003, included in accounts receivable is \$68,958 (2002 – \$76,630) due from the related party.

Also see *notes 8 and 12*.

15 Financial instruments**Fair value**

The fair values of cash, accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

The fair value of the long-term debt approximates its carrying amount based on reference to current market prices for debt with similar terms and risks.

The fair value of the interest rate swap approximates its carrying amount based on reference to current market interest rates.

Credit risk

A substantial portion of PRT's accounts receivable is with customers in the forestry industry and is subject to normal industry credit risks.

16 Significant customers

Approximately 11% (2002 – 17%) and 9% (2002 – 14%) of the Fund's revenue is earned from its two largest customers. No other customers account for more than 10% of the Fund's revenues.

17 Comparative figures

Certain of the comparative figures have been restated to conform with the presentation adopted in the current year.

18 Subsequent events

On January 8, 2004, PRT, through a wholly owned subsidiary, purchased a nursery site near Portland, Oregon for US\$2,300,000. The purchase was financed through use of PRT's term debt facility and vendor financing.



Colin A.C. Dobell



John Kitchen



Allan D. Laird



George C. Stevens



Christopher J. Worthy



Robert A. Miller



Herb Markgraf

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Financial Consulting Firm

John Kitchen
President and CEO

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
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President, Worthy Capital Ltd.

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Trading Symbol
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Allan D. Laird
President, A.D. Laird Consulting Ltd.
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George C. Stevens, Q.C.
Associate Counsel,
Lang Michener LLP, Barristers & Solicitors
Law Firm

Annual Meeting

The annual meeting of Unitholders will be held at 10:00 am, May 17, 2004 at the offices of Davis & Company, 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia

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